

Massachusetts Electric

A **National Grid** Company



April 5, 2005

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: D.T.E. 04-116

Dear Secretary Cottrell:

On behalf of Massachusetts Electric Company and Nantucket Electric Company we are submitting reply comments in the above-captioned docket. Thank you very much for the opportunity to submit these reply comments.

Very truly yours,

Amy G. Rabinowitz
Alexandra E. Singleton

cc: Joseph W. Rogers, Office of the Attorney General

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation by the Department of Telecommunications and Energy)
on its own motion regarding the service quality guidelines established) D.T.E. 04-116
in Service Quality Standards for Electric Distribution Companies)
and Local Gas Distribution Companies, D.T.E. 99-84 (2001))

**REPLY COMMENTS OF MASSACHUSETTS ELECTRIC COMPANY AND
NANTUCKET ELECTRIC COMPANY**

Massachusetts Electric Company and Nantucket Electric Company (collectively “Mass. Electric” or “Company”) submit the following reply comments in relation to service quality guidelines. The Company looks forward to continuing to participate in this proceeding in order to assist the Department in developing service quality guidelines that promote safe, reliable and cost-effective electric service for the benefit of all customers.

Mass. Electric makes the following observations in relation to some of the key issues contained in the initial filings.

I. Offsets and Incentives

The initial comments filed in this proceeding indicate wide support for continuing to permit utilities to offset service quality penalties incurred in a particular service quality measure with good performance in other service quality measures. NSTAR Initial Comments, pp. 6-16; WMECo Initial Comments, pp. 2-4; Berkshire Gas Company Initial Comments, pp. 6-8; Bay State Gas Company Initial Comments, pp. 2-5; Keyspan Initial

Comments, pp. 4-10; New England Gas Company Initial Comments, pp. 3-13; Mass. Electric Initial Comments, pp. 3-4. The comments with regard to offsets reflect a consensus that offsets are necessary to insulate utilities from variations in performance due to factors beyond their control and which are unrelated to actual degradations in service quality, and, most importantly, that offsets act as an incentive for utilities to continually strive to exceed performance benchmarks. NSTAR Initial Comments, pp. 6-16; WMECo Initial Comments, pp. 2-4; Berkshire Gas Company Initial Comments, pp. 6-8; Bay State Gas Company Initial Comments, pp. 3-5; Keyspan Initial Comments, pp. 4-10; New England Gas Company Initial Comments, pp. 3-13; Mass. Electric Initial Comments, pp. 3-4.

Some of the parties recommend allowing offsets only to performance in closely-related service quality measures. A.I.M. Initial Comments, pp. 1; Attorney General Initial Comments, pp. 1-2. Other parties recommend that offsets be discontinued entirely. UWUA Initial Comments, pp. 6-7; Constellation NewEnergy, Inc. Initial Comments, pp. 9¹. What these commenters miss, however, is that limiting offsets only to performance in closely-related service quality measures, or eliminating them entirely, does not provide utilities with an adequate incentive to improve service quality beyond benchmarked levels. Expenditures necessary to significantly improve service quality in a particular performance measure often cannot be justified in the absence of the ability to offset penalties that may be incurred in other service quality measures. Improvement of any service quality index does not often occur in small incremental steps. Major investment must occur to achieve a performance increase. Restricting offsets to closely-related

¹ Mass. Electric notes that Constellation NewEnergy, Inc. advocates the elimination of offsets in favor of the ability of utilities to collect incentives for good performance. Constellation NewEnergy, Inc. Initial Comments, pp. 9.

service quality measures would eliminate any value of those offsets for areas of continuing good performance. Furthermore, eliminating offsets entirely would clearly disincentivize utilities from striving to exceed performance benchmarks, particularly in the absence of the ability to collect incentives. Therefore, if offsets are utilized instead of incentives, any offset must be applied to the whole set of service quality measures.

The initial comments also indicate wide support for the ability of utilities to collect incentives earned under service quality plans. NSTAR Initial Comments, pp. 28-32; WMECo Initial Comments, pp. 8; Bay State Gas Company Initial Comments, pp. 9-10; Keyspan Initial Comments, pp. 24-28; New England Gas Company Initial Comments, pp. 25-29; Constellation NewEnergy, Inc. Initial Comments, pp. 7-8, 11; Mass. Electric Initial Comments, pp. 11-12. The comments with regard to incentives reflect a consensus that the ability to collect incentives as part of a symmetrical system of penalties and rewards is a more effective way to encourage utilities to strive for service quality improvement above benchmarked levels than either a penalty only or a penalty/offset system. Constellation NewEnergy, Inc. Initial Comments, pp. 7-8, 11; NSTAR Initial Comments, pp. 28-32; WMECo Initial Comments, pp. 8; Keyspan Initial Comments, pp. 24-28; Bay State Gas Company Initial Comments, pp. 9-10; See Mass. Electric Initial Comments, pp. 11-12; New England Gas Company Initial Comments, pp. 25-29. The Attorney General has stated that the Department should establish service quality guidelines that require utilities to provide improvements in service quality for customers. Attorney General Initial Comments, pp. 2. While Mass. Electric addresses the feasibility of continuous improvement in Section VII. below, we note here that care must be taken in developing service quality guidelines so that there is an appropriate balance between

the levels of service quality that customers expect and adequate incentives for utilities to achieve those goals.

II. Staffing Levels

A majority of the parties agree that it is inappropriate for the Department to establish penalties related to staffing levels. NSTAR Initial Comments, pp. 19-25; A.I.M. Initial Comments, pp. 1; See WMECo Initial Comments, pp. 4-6; Berkshire Gas Company Initial Comments, pp. 10-13; Bay State Gas Company Initial Comments, pp. 6-8; Keyspan Initial Comments, pp. 14-21; New England Gas Company Initial Comments, pp. 16-22; Mass. Electric Initial Comments, pp. 5-7. Most of these comments reflect a consensus that the Department's current approach to staffing levels is consistent with the statutory requirements set forth in G.L. c. 164, § 1E(a). NSTAR Initial Comments, pp. 19; Berkshire Gas Company Initial Comments, pp. 13; Bay State Gas Company Initial Comments, pp. 7; Keyspan Initial Comments, pp. 14; New England Gas Company Initial Comments, pp. 16; Mass. Electric Initial Comments, pp. 5.

However, the Attorney General and the UWUA advocate that the Department should impose penalties for reductions in staffing levels below 1997 levels, and state that this is consistent with G.L. c. 164, § 1E(a). Attorney General Initial Comments, pp. 4; UWUA Initial Comments, pp. 4-5, 9-20. In arguing that there should be a penalty for reductions in staffing levels below 1997 levels, the Attorney General and the UWUA conflate service quality standards with employee benchmarks. G.L. c. 164, § 1E(b) distinguishes service quality standards from employee benchmarks. While it is clear that the Department may impose penalties for service quality standards pursuant to G.L. c.

164, § 1E(c), the statute does not provide for penalties for failure to meet employee benchmarks.

In addition, the purpose of a service quality plan is to enable the assessment of a utility's service performance over time – discouraging any degradation of service and encouraging improvements in service – and the most effective service quality measures are based upon controllable outputs regarding how well the service is delivered and relate to customers' service expectations. Input-related measures are not appropriate, for in the management of the business and provision of service to customers, a utility makes informed business decisions about how to best use all of its resources, including its staff, to produce optimum results for customers. Mass. Electric Initial Comments, pp. 5. In the absence of service quality degradation that can be attributed to reduced staffing levels, utilities should not be subject to service quality penalties for such input-related measures.

III. Standardization of Service Quality Performance Benchmarks

With respect to standardization of service quality performance benchmarks, a majority of the parties recommend the continued measurement of a company's actual performance in relation to its own historical performance. NSTAR Initial Comments, pp. 25-28; WMECo Initial Comments, pp. 6-7; Berkshire Gas Company Initial Comments, pp. 13-15; Bay State Gas Company Initial Comments, pp. 8-9; Keyspan Initial Comments, pp. 21-24; New England Gas Company Initial Comments, pp. 22-25; Mass. Electric Initial Comments, pp. 7-10. The parties broadly acknowledge that, to varying degrees, many unique company-specific factors influence the service quality performance of most measures, and adoption of an appropriate set of broad state-wide, region-wide, or

nation-wide, benchmarks would be extremely difficult at best. See id. Nonetheless, two of the parties support adoption of broader benchmarks for those customer service and safety measures which seem to have fewer company-specific factors. A.I.M. Initial Comments, pp. 2; Attorney General Initial Comments, pp. 5 (citing Attachment 1, p. 12). For example, the Attorney General suggests that some measures, such as call center answering, bill adjustments, customer satisfaction surveys, and safety standards may lend themselves to statewide or national benchmarks. Attorney General Initial Comments, pp. 5 (citing Attachment 1, p. 12.) Even if we assume that these measures have fewer company-specific factors, this approach would present a number of challenges in the proper design of the service quality benchmarks. In particular, by establishing a set of standard performance benchmarks, utilities with performance that already exceeds the benchmark would have a natural disincentive to perform better, and utilities with performance below the benchmark could have significant difficulty meeting the benchmark, thereby incurring penalties which reduce their ability to invest in improvements. The primary objective of such broader based benchmarks, continuing improvement in service, can be met more appropriately by having financial incentives for improved company-specific performance.

The Department's service quality guidelines in D.T.E. 99-84 have enabled significant progress in measuring an individual company's performance consistently. but the Department can further this progress by requiring the adoption of IEEE Standard 1366-2003, which will improve reliability reporting and tracking analysis.

IV. Customer Service Guarantees

With respect to customer service guarantees, a majority of the parties agree that utilities should be able to reschedule service appointments at some point prior to the scheduled appointment time without penalty. NSTAR Initial Comments, pp. 34-35; A.I.M. Initial Comments, pp. 2; WMECo Initial Comments, pp. 9; Berkshire Gas Company Initial Comments, pp. 17-18; Bay State Gas Company Initial Comments, pp. 10-13; Keyspan Initial Comments pp. 29; New England Gas Company Initial Comments, pp. 30-31; See Mass. Electric Initial Comments, pp.13; UWUA Initial Comments, pp. 22. A few of the parties, including Mass. Electric, argue that no penalties should be imposed if the utility reschedules the appointment within four hours of the scheduled appointment time. Mass. Electric Initial Comments, pp. 13; A.I.M. Initial Comments, pp. 2; WMECo Initial Comments, pp. 9. On the other hand, UWUA recommends that the Department require utilities to notify customers at least eight hours prior to the scheduled appointment time of the need to reschedule in order to avoid incurring a penalty. UWUA Initial Comments, pp. 22. This recommendation is impracticable. Situations do arise when a utility will have to deal with an emergency situation due to unforeseen circumstances, and a utility will not have eight hours advance notice itself of the emergency. The flexibility to reschedule appointments within four hours of the scheduled appointment time without penalty is an appropriate and reasonable amount of notice to customers, which balances the need for utilities to adequately deal with emergency situations that arise with the needs of customers who have scheduled service appointments.

V. Property Damage

A majority of the parties agree that damage to company-owned property should not be incorporated as a penalty measure in future service quality guidelines. NSTAR Initial Comments, pp. 36-39; A.I.M. Initial Comments, pp. 2; WMECo Initial Comments, pp. 10; Berkshire Gas Company Initial Comments, pp. 18; UWUA Initial Comments, pp. 23; Bay State Gas Company Initial Comments, pp. 11-12; Keyspan Initial Comments, pp. 30-31; Mass. Electric Initial Comments, pp. 14; New England Gas Company, pp. 32-35. A number of these comments reflect a consensus that damage to company property is not necessarily correlated to any service quality measure. NSTAR Initial Comments, pp. 36-39; WMECo Initial Comments, pp. 10; Berkshire Gas Company Initial Comments, pp. 18; See Bay State Gas Company Initial Comments, pp. 11-12; Keyspan Initial Comments, pp. 30-31; New England Gas Company Initial Comments, pp. 32-35; Mass. Electric Initial Comments, pp. 14.

The Attorney General advocates that the Department require utilities to report damage to customer-owned property or to the property of third-parties caused by utilities rather than report on damage to utility-owned property. Attorney General Initial Comments, pp. 6 (citing Attachment 1, pp. 21). As a preliminary matter, Mass. Electric notes that damage to customer-owned property is more appropriately handled through established claims procedures with affected customers than through a generalized service quality response. In addition, Mass. Electric notes that it has limited access to information regarding damage to customer-owned property or to property of third parties. Mass. Electric may only know about such damage if a customer reports it, in which case the correct resolution is with that customer and not through service quality reporting.

VI. Line Loss

A number of the parties agree that establishing a service quality measure for line losses is not appropriate, given that the factors which contribute to line losses are generally beyond the utilities' control. NSTAR Initial Comments, pp. 40; WMECo Initial Comments, pp. 10-12; Keyspan Initial Comments, pp. 32; New England Gas Company Initial Comments, pp. 35; Mass. Electric Initial Comments, pp. 15. The majority of these parties do not object to continuing to report line losses to the Department under the current service quality guidelines, however. NSTAR Initial Comments, pp. 40; Keyspan Initial Comments, pp. 32; New England Gas Company Initial Comments, pp. 35; Mass. Electric Initial Comments, pp. 15;

On the other hand, Constellation NewEnergy suggests that the Department make line losses a service quality measure. Constellation NewEnergy Initial Comments, pp. 11. A.I.M., the Attorney General, and UWUA recommend that the Department further investigate the issue of line losses and/or enhance the reporting requirements for line losses to aid in developing a solution to the problem. See A.I.M. Initial Comments, pp. 2; Attorney General Comments, pp. 6; UWUA Initial Comments, pp. 23-24. These recommendations presuppose that there is a connection between service quality and line losses. As Mass. Electric has described in our initial comments, this is incorrect. Line losses are directly proportional to load factor, and utilities have little control over them. Given the highly technical nature of this topic, Mass. Electric recommends that the Department hold a technical session on line losses in order to help the Department and stakeholders better understand how line losses occur.

VII. Other Issues

Utility Report Cards

The Attorney General urges the Department to establish a requirement that utilities provide customers with annual service quality report cards detailing the same information that is currently provided to the Department in annual service quality reports. Attorney General Initial Comments, Attachment 1, pp. 36-37. Mass. Electric opposes utility report cards, because they not would be useful to customers. With the complexity of the service quality metrics and the lack of comparability between utilities' service quality metrics, report cards will give rise to more questions than they will answer. They will likely lead to unnecessary customer confusion and/or frustration, which will needlessly increase the number of calls to the Company's customer service department and also to the Department's Consumer Division.

UWUA Inspection and Maintenance Guidelines

UWUA urges the Department to adopt non-punitive inspection and maintenance guidelines for utilities which would require each company to routinely inspect and report on the status of repairs. UWUA Initial Comments, pp. 5, 26-29. Mass. Electric is opposed to the adoption of such a system. The purpose of a service quality plan is to enable the assessment of a utility's service performance over time to prevent degradation in service to customers. D.T.E. 99-84, pp. 43 (August 2000). Service quality plans are most effective when the resulting performance measures are based on controllable outputs and relate to customers' service expectations. A mandatory system of inspection and maintenance requirements is not appropriate for inclusion in a service quality plan

because decisions relative to inspection and maintenance are inputs to the system rather than outputs. Utilities need the flexibility to determine the most efficient means of providing safe and reliable service to their customers. A system of mandatory inspection and maintenance guidelines is an inefficient one-size-fits all approach to allocating utilities' resources that does not address variations among utilities' service territories and systems. Rather than require utilities to inspect portions of their system on an arbitrary schedule, Mass. Electric urges the Department to continue to allow utilities to exercise management judgment in developing such input-related processes. Furthermore, in the event of service quality degradation, the Department already has sufficient authority to investigate utilities' inspection and maintenance programs to examine the attendant causes of such degradation.

Percentage Allocation of Service Revenue Penalty

UWUA also urges the Department to alter its current system of limiting the maximum penalty a utility can incur if it fails to meet a particular performance benchmark to a specified percentage of the service revenue penalty (two percent of annual transmission and distribution revenues) imposed by G.L. c. 164, § 1E(c). UWUA Initial Comments, pp. 30. Instead, UWUA recommends that each performance benchmark be capable of receiving the entire two percent penalty. *Id.* As discussed above, using a symmetrical system of incentives and penalties provides a road map for a utility to plan and make system improvements. Allocating the two percent maximum penalty among the service quality measures is an important feature for attaining this objective, which the UWUA's recommendation would thwart.

It is, of course, within the Department's purview to review the penalty percentage allocations from time to time and revise them as appropriate. Accordingly, the Company would not oppose working with the Department to reevaluate the current percentage allocations if the Department would consider it advisable. Regardless of the actual penalty percentages that are allocated to each performance benchmark, the Company must know the allocations in advance, so that the Company will be able to make the financial decisions that are necessary to appropriately address particular performance areas.

IBEW Training and Procurement of Outside Contractors

IBEW urges the Department to adopt service quality standards for the training and procurement of outside contractors that are retained by electric distribution companies to work on the underground distribution system. IBEW Initial Comments, pp. 2. IBEW further states that public safety and worker safety are essential goals for a utility service quality plan. *Id.* Mass. Electric strongly agrees with IBEW that public safety and worker safety are of critical importance. As noted in IBEW's initial comments, Mass. Electric has voluntarily adopted a requirement that its contractors meet the qualifications set forth in the Northeastern Joint Apprenticeship and Training Program, which is approved by the US Department of Labor's Bureau of Apprenticeship and Training. IBEW Initial Comments, pp. 11-12.

Nonetheless, Mass. Electric submits that not all measures are appropriate for inclusion in service quality guidelines. Although the safety of the public and of workers is extremely important, provisions for the training and procurement of outside contractors

relate to how Mass. Electric provides service, and not the results. Thus, Mass. Electric recommends against expanding the service quality measure to include the training and procurement of outside contractors. If the Department wished to review whether the percentage allocation attributable to current safety measures should be revised, Mass. Electric would not be opposed to that.

Continuous Improvement

The Attorney General discusses the need for “continuous improvement” in utilities’ service quality performance. Attorney General Initial Comments, pp. 2. While the Company acknowledges the need to provide adequate reliability performance at a reasonable cost and to encourage improvement in performance, there are natural limits to “continuous improvement.” The law of diminishing returns governs improvement. Under a properly designed service quality plan (with appropriate financial incentives and penalties), once optimized service levels are reached, they are likely to be maintained, but not further improved simply to show improvement, because continuing to improve beyond such levels is no longer beneficial or cost justified.

Momentary Interruptions

The Attorney General urges the Department to consider tracking momentary interruptions. Attorney General Initial Comments, Attachment 1, pp. 27-28. The Company believes that there will be little value to the vast majority (ninety-nine percent) of customers in tracking this information. The cost to collect the information is quite high as it will require Mass. Electric to add remote monitoring and control equipment to

all substations and down-line reclosing devices. Adding these devices will cost customers millions of dollars and result in very little meaningful information being collected. Most residential customers are not affected, in a significant way, by momentary interruptions in service. While clocks in older devices may blink, most newer devices, including microwaves and VCRs, come equipped with capacitors or battery backup that eliminate blinking clocks. Although momentary interruptions can affect industrial and commercial customers, in most cases, cost effective solutions are easily available on the customer side of the meter. In addition, gathering data on momentary interruptions will not result in system changes. Because the interruptions are momentary, no cause can be determined which would allow the Company to make changes. This contrasts with measures such as SAIFI and SAIDI that result in information that can help the Company change its practices, policies, or procedures to improve reliability.

Poor Performing Circuits

The Attorney General urges the Department to require utilities to track poor performing circuits as part of service quality plans. Attorney General Initial Comments, Attachment 1, pp. 26-27. Mass. Electric is opposed to this requirement. By definition, every electric utility will have poor performing circuits, since the present measure is a comparative one. It will also be true that some circuits will appear on a list of poor performing circuits more often than the average, due to the characteristics of the circuit. For example, circuits serving remote rural areas will tend to have lower reliability metrics than urban circuits serving condensed customer load. Not only will the rural circuits have a greater number of miles of line per customer served, resulting in greater exposure

and probability of failure per customer served, it will take far longer, on average, for the responders to reach the problem location to start repairs when an interruption occurs.

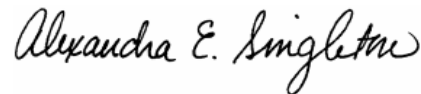
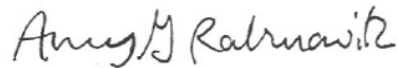
In addition, utilities are required to report their poor performing circuits, along with a listing of the interruptions, and their causes, on those circuits to the Department. Mass. Electric believes that a review of that report, with a request for explanation of egregious results on any circuit, or extended repetitive appearance on the list, is an adequate approach to reviewing the reliability performance of individual circuits.

VIII. Conclusion

Mass. Electric appreciates the opportunity to provide reply comments to the Department relative to its investigation into service quality guidelines. The Company looks forward to working with the Department in assessing how best to structure service quality plans that are based on the controllable performance of a utility.

Respectfully submitted,

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By their attorneys,



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Dated: April 5, 2005